

Statement for the Record

United States Agency for International Development

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Distinguished members of the Subcommittee, my name is J Alexander Thier, Assistant to the Administrator and Director of the United States Agency for International Development’s (USAID) Office of Afghanistan and Pakistan Affairs (OAPA). As requested, I will provide brief opening remarks but would ask that my full written statement be entered into the hearing record.

I would like to open by offering my respect for the excellent work of this subcommittee in conducting oversight and demanding accountability for U.S. taxpayer dollars. I began working on Afghanistan in 1993, and since the fall of the Taliban, I have been intensively engaged in implementing and assessing the U.S. effort to stabilize Afghanistan. I have repeatedly raised concerns about the corrosive effects of corruption, waste, and failed expectations in our efforts. Indeed, these are not only issues of fiscal importance, but of national security itself. I have long argued that the insurgency is strengthened by corruption, by lack of accountability, by weak governance.

One of the very reasons I took this job as Director of our Afghanistan and Pakistan Office with USAID almost one year ago was to improve our performance and our accountability. We owe it to both the American and Afghan people. The subcommittee’s efforts are an essential element in this process. Particularly in light of the President’s announcement last week that we will begin the drawdown of U.S. troops, having broken the Taliban’s momentum, we jointly bear an important responsibility beyond the transition. USAID’s job is to ensure that our efforts are sustainable, durable and realistic as we strengthen Afghan capacity for self-reliance.

Second, I would like to take this opportunity to draw your attention to the dramatic development achievements made in Afghanistan over the last decade, made possible due to the generous support of the American taxpayers, our hard work and the work of USAID’s implementing partners. Contrary to what makes the front pages and headlines, aid to Afghanistan is something for which we should be proud. For example, we’ve worked with the health ministry to dramatically expand access to health services from nine to now 64 percent of the population. Our efforts to build schools and train teachers have allowed more than 7 million children to enroll in school, 35 percent of whom are girls. (Under the Taliban, less than a million boys and

no girls attended school.) Gross Domestic Product has averaged 10 percent growth per year. And GDP per capita has doubled since 2002 with five million people lifted from a state of dire poverty. We have tripled our number of USAID staff, with approximately 60 percent of our 309 current staff deployed outside Kabul, working alongside the military and other agencies. Together, we are proud of our contribution to helping reverse Taliban momentum and achieving development progress in the toughest conditions.

But under such tough conditions as exist in Afghanistan, we are constantly refining and improving our approaches to increase impact, improve oversight of projects, and build Afghan capacity. I would like to draw your attention to our work to emphasize *sustainability* and *improve oversight* that I have advanced during my short time with USAID.

Sustainability: As we embark on the path of transition – the process by which our Afghan partners will truly stand on their own feet – sustainability is of paramount concern to us. We are aligning our resources against critical foundational investments in economic growth, infrastructure, and human capital that will speed a sustainable transition. We have worked with Afghan and international partners to identify a set of core development investments that must be made to develop Afghan capacity, promote economic growth, and increase government revenue generation to support a sustainable, durable transition in Afghanistan. Those investments include:

- Agriculture, upon which 8 of 10 Afghan livelihoods depend, and which is the most promising near-term means of increasing employment, income generation, and food security.
- Extractives Industries, because robust, transparent, and environmentally-sustainable development of Afghanistan’s oil, gas, and mining industries will facilitate the construction of regional infrastructure and energy networks, dramatically increase government revenue, develop local economies, and create jobs.
- Financial Inclusion, in which USAID’s goal is to leverage the access that most Afghans have to mobile telephone networks (85% live within network coverage) to increase access to safe, sound financial services for the unbanked, from less than 5 percent to over 10 percent of Afghan account holders in three years, while increasing transparency in the financial system.
- Human Capacity Development will also be critical. An educated, skilled, and healthy Afghan workforce is an essential enabler for sustained economic growth. An additional year of tertiary education can raise GDP growth by 0.5%.
- Energy is a final foundational investment, and because it illustrates past achievements, and challenges, it merits particular attention in this testimony.

Analyses show that power availability and consumption are directly correlated with economic viability. Since 2002, an annual 20 percent increase in electricity supply helped fuel the GDP growth rate. Because sustainability of our investments is essential, a key component of our work is building Afghan capacity in the power sector and supporting power sector reform. In 2009, the U.S. and other donor agencies achieved a major milestone: the official launch of the Da Afghanistan Breshna Sherkat (DABS), a new commercialized Afghan electrical utility. With our assistance over the last years, their collections have increased by 30%, revenues have nearly doubled to \$40 million, and they are earning the funds needed to sustain operations. Kabul has

gone from averaging 2 hours of electricity in 2002 to 24 hour availability today. Additional investments in energy hold similar potential to leave in place in Afghanistan the means for self-reliance.

Like energy, other important foundational investments established in Afghanistan are roads, schools, and hospitals. Since Fiscal Year 2006, USAID has delivered \$9.38 billion of assistance to Afghanistan, and of that approximately \$2.1 billion has been devoted to infrastructure activities in Afghanistan. These funds have been devoted to a wide array of projects that provide critical development services to a population dealing with thirty years of sustained conflict and in need of sustained economic growth.

Yet I cannot overemphasize the challenges involved in undertaking these efforts as the Afghans, the U.S. and other international partners combat a vicious insurgency and terrorist threat. Security concerns on construction projects are paramount: in 2010, attacks on civilian efforts have risen seven-fold. Managing the safety of U.S., international and Afghan personnel, as well as the associated costs, is a central undertaking for us. Geography – remote, rough and mountainous terrain – also presents huge challenges, as does the relative lack of specialized expertise in Afghanistan to undertake complex construction efforts.

Along with others, I have been particularly concerned about our work in road construction. USAID focused on road construction on major transit routes, and more recently on increasing connections between district centers and provincial capitals. Our efforts to date have yielded over 1,600 kilometers (990 miles) of roads, and we are working closely with the Afghan government and private sector to assist with the maintenance of approximately 1,800 km (1,118 miles) of roads nationwide. USAID trains government staff on road design, conducts performance-based contracting for road maintenance, and is working to establish an independent National Roads Authority and Fund that will contract with the private sector to maintain the country's transport infrastructure.

The impact of road construction is illustrated by a study we conducted after the recently completed national highway in the north (Kishim to Fayazabad). The number of new businesses, such as fuel stations and markets, more than doubled, passenger bus activity increased, and market prices have declined along the road's path. Similar impacts were documented from our reconstruction of the Kabul to Kandahar road – freight costs were reduced by 60% and travel times reduced by 50%.

But the challenges and costs of road construction are particularly acute on a still unfinished road, the Khost-Gardez road. Recent news reports have referenced this activity which seeks to provide the first ever paved road between Khost and Gardez – two important population centers in the volatile East of the country near the border with Pakistan. The road, a high-priority for the U.S. military, the local population and the Afghan government, will be a high-speed, all-weather connector and will provide the provinces with economic and public access to the rest of Afghanistan. The recent press reports underscore the challenges in undertaking stabilization efforts in the middle of an insurgency – especially infrastructure programs that are a key aspect of our transition strategy.

Insurgents have remorselessly attacked the road to prevent the benefits the road will yield. They know that the sooner Afghanistan has a viable infrastructure, the sooner Afghans can fend for

themselves and be less vulnerable to violent extremists. Nineteen people have died while working on construction of the Khost-Gardez road to date and 364 security incidents have taken place since our work began. In 2008, when work on the road began, the security situation was far better than in subsequent years. That year there were 32 security incidents, and 2 people killed. By 2009, security incidents had increased ten-fold to 344 with 109 people killed. In 2010, incidents doubled again to 687 with an additional 101 people killed working on our programs. Sadly we have recently experienced the deaths of two security providers on this road. These individuals were beheaded by the Taliban when district elders refused to sign an agreement with the Taliban not to work with the United States.

Infrastructure programs are particularly vulnerable and insurgents take advantage of this through attacks and attempts at extortion. However, the challenges of this road and other infrastructure projects have led us to make a number of important improvements in oversight and accountability.

Oversight and Accountability: Under all conditions, USAID takes oversight of our projects extremely seriously. And under such difficult conditions as we've found in Afghanistan, we've made oversight and accountability as much a priority as our projects themselves. This is an area on which USAID's leadership, including Administrator Shah and myself, has focused intensively, as it represents a key part of our Agency's reform agenda and our team's approach in Afghanistan.

To ensure that proper procedures are in place to help protect assistance dollars from waste, fraud or otherwise being diverted from their development purpose, USAID has developed the Accountable Assistance for Afghanistan (A³) initiative. As a result, USAID is enhancing its safeguards for development assistance in the following four categories:

- Award Mechanisms – A subcontracting clause is being included in new awards requiring that a certain percentage of work on a contract be done by the prime contractor. It also provides for the ability to restrict the number of subcontract tiers, and to prohibit subcontracts with broker/dealers who do not perform work themselves.
- Vendor Vetting – The mission established a Vetting Support Unit in February 2011. The unit conducts national security checks on non-U.S. companies and non-U.S. key individuals for prime awards contractors, grant recipients and sub-awardees to determine whether or not they have a criminal history or association with known malign organizations.
- Financial Controls – The USAID mission is working with the USAID Inspector General to establish a new program of auditing procedures for 100 percent of locally incurred project costs.
- Project Oversight – The mission is devolving more project monitoring responsibilities to USAID personnel located in field offices outside of Kabul. Assigned to specific projects, USAID On-Site Monitors will have the authority to monitor implementation of USAID projects and report to the USAID Contract/Agreement Officer's Technical Representative.

Our A3 systems are already yielding results, for example with regard to the Khost-Gardez road: as our implementing partner was contracting out the final section of the road, USAID initiated its

partner vetting process and found that proposed sub-contractors were ineligible to receive USAID funds and therefore removed from consideration for the award.

Concurrent to these efforts, we are addressing oversight and accountability through our ongoing efforts to increase our civilian footprint and to revise our contracting practices. Over the last two years, USAID has increased our staffing throughout Afghanistan by 66 percent – from approximately 100 Americans in June 2009 to 309 as of June 2011, and 150 Afghans in June 2009 to the current number of 170. Approximately 60 percent of our American staff are now located outside of Kabul, as are many of our Foreign Service National personnel, who represent the backbone of USAID’s mission. This allows us to have more USAID “eyes on the ground,” directly supervising our projects, rather than leaving the reporting to contractors.

Our field staff serve on Provincial Reconstruction Teams (PRTs), District Support Teams (DSTs), and in Regional Platforms, bringing with them a wide variety of skills, including backgrounds in law, financial management, auditing, and contracting. Despite high-levels of insecurity, we are also taking steps to ensure that our staff gets out frequently to assess performance against a set of established targets. Being placed in the field allows these personnel to monitor and oversee USAID interventions in their regions and keep activities aligned with the priorities put forth by the Afghan people. I am grateful for the Congress' support in appropriating the resources necessary to increase our presence on the ground to ensure better oversight and accountability.

Consistent with the Agency's USAID Forward agenda, we are working to decrease our reliance on large, multi-year agreements and are instead shifting to implement an increased number of smaller and more flexible agreements. In many instances, these smaller agreements are managed outside of Kabul by our field-based staff who are closer to the actual implementation and provide a higher degree of monitoring and oversight to the project progress as well as the use of those funds.

In an effort to make projects more manageable and to improve program oversight, in some cases, we have moved from larger contracts to smaller contracts, which are more focused programmatically as well as regionally based. For example, one five-year IQC signed in 2006 with a ceiling of \$1.4 billion for infrastructure covered roads, power, and vertical structures. This has now been broken into 3 separate programmatic areas (energy/water, transportation, and vertical structures) with up to twelve (12) possible IQC award holders. Another example is the Stabilization in Key Areas (SIKA) project which will have four separate regional awards. Finally, I think it is important to note that through issuance of a Mission Order in September 2010, USAID/Afghanistan has re-delegated programmatic and administrative authorities to the field.

Interagency Coordination: As laid out in National Security Presidential Directive 1, coordinating interagency USG assistance to Afghanistan is important for maximizing the developmental impact of donor funds, avoiding duplication of effort, and strengthening our partnership with allies in Afghanistan. In Washington, USAID works closely with our counterparts at the State Department to ensure close coordination in our programming and overall assistance goals. USAID coordinates with the Department of Defense (DOD) through bi-weekly reintegration video-teleconferences, as well as through the weekly Federation Forum hosted by DOD.

In Kabul, all of USAID's activities in Afghanistan are closely coordinated with State's Coordinating Director for Development and Economic Affairs. USAID also works closely with the Embassy's Senior Agricultural Coordinator from the United States Department of Agriculture (USDA) and the Rule of Law Ambassador. USAID is also a member of various interagency working groups, and USAID co-chairs the Infrastructure Working Group (IWG) with the USFOR-A Joint Engineering (JENG) - Joint Programs Integration Office. This group meets on a regular basis to discuss infrastructure project coordination and planning. USAID leads the interagency Working Group for Reform of the Construction Sector (WG RoCS), and participates in DOD's Task Force 2010, an interagency effort begun in June 2010 to improve the visibility of USG contract funding flows in Afghanistan. USAID staff are also detailed to the International Security Assistance Force (ISAF) headquarters in Kabul, to ensure greater coordination with the military effort.

Beyond Kabul, USAID works hand-in-hand with field staff from State, USDA, DOD, and other agencies as part of the Regional Platforms, Provincial Reconstruction Teams (PRTs), and District Support Teams (DSTs). USAID field personnel, for example, have veto authority on the Commander's Emergency Response Program (CERP) review boards at Task Force and Regional Command levels. USAID field personnel also provide input and insight during the CERP proposal review process.

Conclusion: We are under no illusions about the challenges we face in Afghanistan. Every day our staff and our partners are under threat. Security increases our costs, and we must expend significant effort to safeguard taxpayer funds. If it were easy, we wouldn't be there.

The results we've delivered thus far will enable the President to carefully draw down U.S. resources in Afghanistan, handing responsibility over to a more stable, increasingly prosperous country. And it is this progress that will help bring American troops home more quickly. Civilian assistance has been central to these gains and will only increase in importance as Afghans take the lead in forging their own future.

This concludes my statement for the record. As you well understand, we work in a challenging security and political environment, often charged with uncertainty. I want to assure you of my commitment to ensuring USAID learns from past errors, builds on successes, changes our practices and programs accordingly, and seeks innovative ways to improving our oversight of programs.